

Message Text

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C O N F I D E N T I A L EC BRUSSELS 07275

E.O. 11652: GDS

TAGS: EFDN, EEC, ENGR

SUBJECT: EC COMMISSION COMMENTS ON CIEC IMPASSE

REF: (A) STATE 181094, (B) EC BRUSSELS 7187, (C) WARNE/BOSWORTH
TELECOMS, JULY 20 AND 22, (D) BONN 12367, (E) LONDON 11459,
(F) OECD PARIS 21446

1. SUMMARY: DESPITE THE US POSITION THAT THE G-8 SHOULD AVOID
A PREJUDICED AGENDA (REF A), COMMISSION OFFICIALS TELL US THAT
THE COMMISSION PLANS TO PROPOSE TO MEMBER STATES ON JULY 27
THAT THE EC SUPPORT THE LAST G-19 PROPOSAL ON LDC EXTERNAL DEBT.
IN TURN, THE G-19 WILL BE ASKED TO WITHDRAW ITS PROPOSED CIEC
POSITION ON PROTECTION OF PURCHASING POWER. THE COMMISSION
BELIEVES A SUBSTANTIAL CHANGE IN THE EC POSITIOM ON DEBT
WOULD BE REQUIRED AS A SIGNAL TO THE G-19 THAT THE EC IS PREPARED
TO REACH APPROPRIATE DECISIONS AT CIEC AND TO PREVENT THE BREAKUP
OF THE DIALOGUE. COMMISSION OFFICIALS SAID THE COMMISSION IS
PREPARED TO WORK THROUGH THE G-8, BUT AT THE SAME TIME, THEY
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REJECTED THE POSITION WE PRESENTED. SOME OFFICIALS HERE DOUBT

THAT THE MEMBER STATES WILL AGREE TO THE COMMISSION PROPOSAL, BUT THE DUTCH, AS THE COUNCIL PRESIDENT, PLAN TO SUPPORT THIS PROPOSAL FULLY. END SUMMARY.

2. THE MISSION CARRIED OUT THE INSTRUCTIONS CONTAINED IN REFA. WE HAVE SPOKEN TO CASPARI, DG-1; DURIEUX, DG-VIII; BOYER DE LA GIRODAY, DG-II; HAY, SOAMES' CABINET; AND JACOBVITZ, DUTCH PERMDEL. EXCEPT FOR BOYER WHO IS CURRENTLY NOT PARTICIPATING IN THE DISCUSSIONS, ALL THESE OFFICIALS DISAGREED WITH US POSITION THAT G-8 SHOULD CONTINUE TO SEEK A NEUTRAL, OBJECTIVE FORMULATION ON THE LDC EXTERNAL DEBT ISSUE. CASPARI AND JACOBVITZ MADE THE POINT MOST STRONGLY THAT MAINTENANCE OF THIS POSITION WOULD BREAK UP THE DIALOGUE. WE REITERATED OUR COMMITMENT TO A PRODUCTIVE DIALOGUE BUT OUR FIRM OPPOSITION TO THE G-19 POSITION ON DEBT AND PROTECTION OF PURCHASING POWER, AND THE NEED TO MAINTAIN CLOSE CONTACT AND G-8 SOLIDARITY.

3. AS INDICATED IN PARA 8, REF B, THE JULY 19-20 FOREIGN MINISTERS COUNCIL REACHED THE CONSENSUS THAT THE EC URGENTLY NEEDED TO ADOPT A PROGRAM WHICH WOULD SAVE CIEC. A SERIES OF MEETINGS HAVE BEEN SCHEDULED EARLY THE WEEK OF JULY 26 AIMING TO REACH MEMBER STATE AGREEMENT ON ANEW EC INITIATIVE TO PUT THE DIALOGUE BACK ON THE TRACK. THESE PREPARATIONS WILL LIKELY BE CONCLUDED WITH A SPECIAL MEETING OF THE FOREIGN MINISTERS COUNCIL DURING THE EVENING OF JULY 27 OR MORNING OF JULY 28. (THE MINISTERS WILL BE IN BRUSSELS ANYWAY TO ATTEND THE GREEK/EC ASSOCIATION COUNCIL ON JULY 27).

4. COMMISSION OFFICIALS SAY THAT KEY COMMISSIONERS (SOAMES, HAERKAMP, AND ORTOLI WERE CITED SPECIFICALLY) HAVE AGREED THAT THE COMMISSION SHOULD PROPOSE TO THE MEMBER STATES AN INITIATIVE ON THE CIEC DEBT ISSUE. HOPEFULLY SUCH A "POLITICAL SIGNAL" WILL PERSUADE THE G-19 TO RESUME THE DIALOGUE. THE COMMISSION PLANS TO SUGGEST THAT THE EC PROPOSE THAT THE G-8 AGREE TO THE LAST DEFT POSITION ON LDC EXTERNAL DEBT ISSUES, WITH A FEW MINOR CHANGES, WHICH THE G-19 SUBMITTED AT THE CIEC MEETING IN PARIS ON JULY 16. SUCH AN AGREEMENT, COMMISSION OFFICIALS BELIEVE, WOULD INDICATE TO THE G-19 THAT, INDEED, THE G-8 IS READY TO REACH CONCRETE DECISION ON VITAL LDC ISSUES AT THE APPROPRIATE TIME. THIS SIGNAL, THEY HOPE, WOULD REINFORCE THE POSITION
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OF PEREZ GUERRERO AND THOSE MEMBERS OF THE G-19 WHO WANT TO CONTINUE THE DIALOGUE. COMMISSION OFFICIALS SAY THAT THIS CHANGE IN G-8 POSITION SHOULD BE COMMUNICATED BEFORE THE COLOMBO MEETING OF NON-ALIGNED COUNTRIES IN AUGUST. IF NOT, THEY ARE FEARFUL THAT A FEW MEMBERS OF THE G-19, PARTICULARLY THE ALGERIANS, WILL ATTEMPT TO USE THE COLOMBO MEETING TO CRITICIZE THE G-8 AT CIEC AND ADOPT INFLEXIBLE, HARD LINE POSITIONS TOWARD CIEC ISSUES. COMMISSION OFFICIALS BELIEVE THE EC IS INTENT ON PREVENTING THIS

FROM HAPPENING.

5. WE HAVE EMPHASIZED THAT THE US HAS MAJOR SUBSTANTIVE PROBLEMS

ON GENERALIZED DEBT RELIEF AND PROTECTION OF PURCHASING POWER. WE ALSO POINTED OUT THE NEED FOR G-8 SOLIDARITY OVER THE NEXT WEEKS AND THE IMPORTANCE OF STAYING IN CLOSE CONTACT. COMMISSION OFFICIALS AGREE ON THESE LATTER POINTS AND THOUGHT THEY COULD PROVIDE TO US THE TEXT OF THE COMMISSION PROPOSAL ON DEBT ON JULY 27, WHEN THE COMMISSION PLANS TO GIVE IT TO MEMBER STATES. ORALLY, OFFICIALS HAVE CITED THREE SUGGESTED CHANGES TO THE G-19 DRAFT: (1) INTRODUCING PARA 3 WITH THE FOLLOWING: " PURSUANT TO THE UNCTAD RESOLUTION ON LDC EXTERNAL DEBT MATTERS", AND (2) REPLACING PARA 4 OF THE G19 DRAFT WITH PARA 4 OF THE G-8 DRAFT, AND (3) CHANGING THE THIRD SENTENCE IN NUMBERED PARA 3 OF THE G-19 DRAFT TO READ, "THE COMMISSION ON DEVELOPMENT WILL FORMULATE PROPOSALS ON OTHER ASPECTS OF INDEBTEDNESS OF DEVELOPING COUNTRIES INCLUDING MEASURES OF VARYING NATURE WHICH WOULD CONTRIBUTE TO THE ALLEVIATION OF EXISTING DEBT BURDEN..." THESE PROPOSED CHANGES ARE STILL UNDER DISCUSSION AND ARE LIKELY TO BE REVISED. FOR EXAMPLE, DURIEUX SAYS "BURDEN" MAY BE CHANGED TO "PROBLEM" BUT THERE SHOULD BE A SPECIFIC REFERENCE TO DEBT. ACCORDING TO CASPARI, THE COMMISSION IS ESSENTIALLY PROPOSING THE ADOPTION OF G-19 POSITION OF DEBT.

6. IN TURN, CASPARI SAYS THE COMMISSION PLANS TO SUGGEST TO THE MEMBER STATES THAT THE G-19 BE ASKED TO WITHDRAW ITS LAST

PROPOSAL ON PROTECTION OF PURCHASING POWER. COMMISSION OFFICIALS BELIEVE THE COSTS OF IMPLEMENTING SUCH A PROPOSAL ARE MUCH HIGHER THAN GOING ALONG WITH THE G-19 ON SELECTIVE DEBT RESCHEDULING. THEY ADD THAT THE INDUSTRIALIZED COUNTRIES ARE LIKELY TO HAVE TO RE-CONFIDENTIAL

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SCHEDULE DEBT ANYWAY WHEN SEVERAL LDCS DEFAULT ON THEIR OBLIGATIONS. THUS, THEY ARGUE, IT MAKES SENSE TO OBTAIN SOME POLITICAL BENEFIT BY AGREEING NOW TO CERTAIN CONDITIONS FOR RESCHEDULING DEBT. WE DISPUTED THIS POINT BUT THE COMMISSION SEEMS DETERMINED TO PRESS AHEAD.

7. COMMISSION OFFICIALS CONCEDE THAT IF THE EC FOREIGN MINISTERS AGREE TO A NEW EC POSITION ON DEBT THE G-19 WILL LIKELY HEAR ABOUT IT SHORTLY THEREAFTER. WE EMPHASIZED AGAIN THE NEED TO PRESERVE G-8 SOLIDARITY AND EXPRESSED THE HOPE THAT ANY EC DECISION WOULD BE COUCHED IN SUCH TERMS THAT IT IS CLEAR THAT THE COMMUNITY PLANS TO WORK THROUGH THE G-8. COMMISSION OFFICIALS FULLY CONCUR ON THIS POINT. NEVERTHELESS, ANY EC DECISION IS LIKELY TO BE QUICKLY SIGNALLED (OR AT LEAST BECOME KNOWN) TO THE G-19.

8. NOT UNEXPECTEDLY, JACOBVITZ, OF THE DUTCH PERMDEL STRONGLY SUPPORTS THE COMMISSION'S PROPOSED INITIATIVE. THE DUTCH INTEND TO SEEK THE FOREIGN MINISTERS' AGREEMENT TO IT. JACOBVITZ SAYS THE DUTCH BELIEVE WITHOUT A SUBSTANTIAL G-8 CHANGE IN POSITION ON DEBT OR SOME OTHER KEY ISSUE THE DIALOGUE WILL BREAK DOWN. WE EMPHASIZED AGAIN THE NEED FOR SOLIDARITY AND CLOSE COORDINATION AS WELL AS OUR STRONG OBJECTION TO THE G-19 DEBT PROPOSAL. JACOBVITZ ALSO CONCEDED THAT AT LEAST TWO MEMBER STATES WOULD LIKELY OPPOSE THE COMMISSION INITIATIVE. THE DUTCH, NEVERTHELESS, CLEARLY PLAN TO PRESS AHEAD, BUT THEY REALIZE THE IMPORTANCE OF NOT INDICATING PUBLICLY ANY DIVISIONS WITHIN THE RANK OF THE G-8.

9. DCM CALLED HANNAY IN SOAMES CABINET AND TOLD HIM WE APPEAR TO BE HEADING TOWARDS A MAJOR DISAGREEMENT SHOULD THE COMMUNITY AGREE TO THE PROPOSALS OUTLINED ABOVE. DCM ASKED THAT SOAMES BE PUT ON NOTICE OF THIS FEELING AND TAKE OUR VIEWS INTO ACCOUNT BEFORE FINAL DECISIONS REACHED BY COMMISSION. HANNY WAS NOT FULLY AWARE OF STATE OF PLAY WITHIN COMMISSION (IMPLYING THAT SOAMES MAY NOT HAVE FULLY FOCUSED ON IT YET EITHER). HE EXPRESSED SKEPTICISM THAT COUNCIL WOULD AGREE TO THE PROPOSAL AND MENTIONED THAT FOURCADE HAD ALREADY ASKED THAT SUBJECT OF CIEC DEBT PROBLEM BE PUT ON AGENDA OF JULY 26 MEETING OF FINANCE MINISTERS (PRESUMABLY TO PUT LATTER ON RECORD AS OPPOSING CONCESSION TO G-19 BEFORE FOREIGN MINISTERS MEET ON FOLLOWING DAY),DCM SAID CONFIDENTIAL

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HE EXPECTED FURTHER INSTRUCTIONS FROM WASHINGTON BY EARLY NEXT WEEK AND HANNAY SAID HE WOULD WELCOME ANY ADDITIONAL VIEWS WE MAY HAVE.

10. COMMENT: AS ALREADY INDICATED, REF C, THE FRG AND FRANCE ARE LIKELY TO BLOCK ANY COMMISSION PROPOSAL THAT AIMS AT SUBSTANTIALLY CHANGING THE EC POSITION ON DEBT. COMMISSION OFFICIALS BELIEVE THAT THE FOREIGN MINISTERS FEEL KEENLY ENOUGH ABOUT SAVING THE DIALOGUE THAT ALL MEMBER STATES MAY GO ALONG WITH THEIR PROPOSALS. FRANCE, PARTICULARLY, WANTS TO PUT CIEC BACK ON THE TRACKS. OUR PERMDEL SOURCES DOUBT THAT THE MINISTERS WILL ADOPT THE COMMISSION PROPOSAL, BUT THIS DECISION WILL BE MADE IN CAPITALS, NOT IN BRUSSELS. THUS, IF WE WANT TO STOP IT, WE NEED TO RAISE THIS IN CAPITALS. WE SHOULD RECEIVE ANY FURTHER INSTRUCTIONS ON THIS ISSUE BEFORE JULY 27, IF AT ALL POSSIBLE.HINTON

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